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March New Home Sales: March Brings No Spring In New Home Sales

- > New home sales fell to an annualized rate of 384,000 units in March from a (revised) sales pace of 449,000 units in February.
- > Months supply of inventory stands at 6.0 months; the median new home sale price rose by 12.5 percent on a year-over-year basis.

Perhaps one does not have to be a long suffering Chicago Cubs fan to truly appreciate the March report on new home sales, but it probably helps. After all, who better to know the feel of starting the spring with high hopes of things to come, only to have those hopes crushed with the arrival of actual results. Okay, maybe the March new home sales report is not all that dire, but sales nonetheless plummeted to an annualized sales rate of 384,000 units, dashing hopes for a spring revival. March's sales rate was the lowest monthly sales rate since July 2013 and the month-to-month decline exceeded the always large margin of error for new home sales, so, yes, new home sales really were weak in March. But, unlike many a Cubs season that one pretty much knows is over after the first month, we're not ready to throw in the towel on the 2014 spring selling season just yet.

We and other analysts have pointed to low inventories as having been a restraint on new home sales over the past several months. The March data would seem to argue to the contrary, as inventories of new homes for sale rose to their highest level since late 2010 – when inventories were moving in the opposite direction – and the months supply metric now stands at 6.0 months, the highest since October 2011. We would say those figures are a bit misleading. The Census Bureau defines a home as being for sale when a permit is issued in permit-issuing places or when work has begun, but no sales contract signed, in nonpermit-issuing places. In the Census data sales can occur before construction has begun, during the construction period, or after construction has been completed, and in March sales of homes on which construction had not yet been started accounted for 36 percent of all new home sales, while sales of completed units accounted for one-third of all sales. If we focus on "physical" homes for sale, i.e., either under construction or completed, the inventory story reads differently – while off their historical lows of recent years, physical inventories of homes for sale remain exceptionally lean. This reflects the ongoing constraints on lots, labor, and materials that have plagued builders for some time now.

We had expected to have by now seen a faster rebound in single family activity in the evolution of the housing market recovery but this has not played out as single family permits and starts have yet to meaningfully rise. After the unusually harsh winter, spring figured to be the time we saw such a pick-up in single family activity but the March read on single family housing permits did not provide much encouragement, with permits still below the 600,000 unit (annualized) mark. While that hurdle should be cleared over coming months, even when we do see a material increase in single family permit issuance accounting for time to build means it will be another four to six months before there is a commensurate increase in completed units for sale. Thus, inventories will remain lean for at least the next several months.

As such, the imbalances in the housing market reflected in the final chart opposite will continue to linger and new home sales will continue to account for a smaller than normal share of total home sales. So, while not yet ready to start the "wait till next year" chant, we have to accept that the recovery in the single family segment of the housing market will be more gradual than we had anticipated.

